

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF REED CITY	County OSCEOLA
Audit Date 6/30/05	Opinion Date 8/5/05	Date Accountant Report Submitted to State: 10/13/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

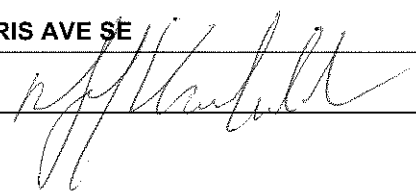
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 2330 EAST PARIS AVE SE	City GRAND RAPIDS	State MI	ZIP 49546
Accountant Signature 		Date 10/13/05	



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 5, 2005

To the Finance Committee of
City of Reed City

We have audited the financial statements of City of Reed City for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 7, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of City of Reed City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether our financial statements are free of material misstatements, we performed tests of the City of Reed City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Reed City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by City of Reed City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of the depreciation of accumulated depreciation is based on the estimated useful lives of the related fixed assets. We evaluated the key factors and assumptions used to develop the useful live in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Reed City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Reed City, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Reed City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Reed City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

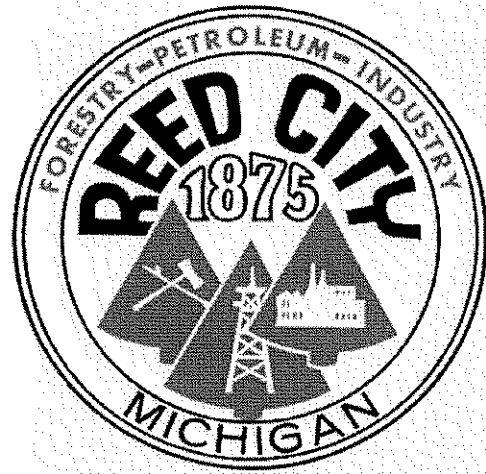
Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the finance committee and management of City of Reed City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".



REED CITY, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005



REHMANN ROBSON

Certified Public Accountants

CITY OF REED CITY

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REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

August 5, 2005

Honorable Mayor and Members of
the City Council
City of Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Reed City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Reed City, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, major streets fund and Maplewood special assessment fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 5, 2005, on our consideration of the City of Reed City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Reed City, we offer readers of the City of Reed City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City of Reed City exceeded its liabilities at the close of the fiscal year by \$11,183,648. Of this amount \$1,626,464 may be used to meet the governments ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$382,074. The increase is totally attributable to the increase in Capital Assets of Governmental Activities due to the Westerburg Park renovations and City Hall improvements.
- As of the close of the fiscal year the City of Reed City's governmental funds reported combined ending fund balances of \$1,095,246 a decrease of \$31,396 in comparison with the prior year. Approximately 78% of the total fund balance, \$857,786 is available for spending at the government's discretion.
- At the end of the fiscal year unreserved fund balance for the general fund was \$279,075 or 23 percent of total general fund expenditures.
- The City's total debt decreased by \$167,115 (7%) from the previous fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reed City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Reed City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reed City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following four funds: General, Major Street, Maplewood Special Assessment, and Parks Improvements.

Data is combined into a single aggregated presentation for the other twelve governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general, special revenue funds, and other funds as necessary. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-20 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sewer and Water operations, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-38 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes this management discussion and analysis.

Combining and individual fund statements and schedules can be found on pages 39-50 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Reed City, assets exceeded liabilities by \$11,183,648 at the close of the most recent fiscal year.

A little less than 15% of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion (79.4%) of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Reed City Net Assets

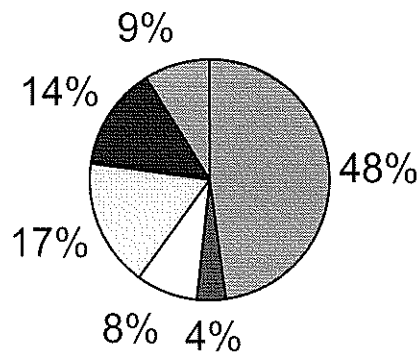
	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current and other assets	\$1,520,107	\$1,386,313	\$ 1,103,261	\$1,179,164	\$ 2,623,368	\$ 2,565,477
Capital assets	2,021,377	2,489,131	8,924,515	8,641,833	10,945,892	11,130,964
Total assets	3,541,484	3,875,444	10,027,776	9,820,997	13,569,260	13,696,441
Long-term liabilities outstanding	757,626	724,474	1,598,982	1,462,683	2,356,608	2,187,157
Other liabilities	195,952	162,950	215,126	162,686	411,078	325,636
Total liabilities	953,578	887,424	1,814,108	1,625,369	2,767,686	2,512,793
Net assets:						
Invested in capital assets, net of related debt	1,264,477	1,768,181	7,260,570	7,112,851	8,525,047	8,881,032
Restricted	235,328	328,643	343,134	347,509	578,462	676,152
Unrestricted	1,088,101	891,196	609,964	735,268	1,698,065	1,626,464
Total net assets	\$2,587,906	\$2,988,020	\$8,213,668	\$8,195,628	\$10,801,574	\$11,183,648

Net assets of the City increased by \$382,074 with the governmental activities showing additions to prior balances. The business-type activities decrease in net assets of \$18,040 was primarily the result of depreciation expensed as a part of operations. The governmental activities increase in net assets of \$400,114 is primarily due to the Westerburg Park and City Hall improvements.

City of Reed City Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenue						
Program Revenue						
Charges for services	\$ 179,818	\$ 198,903	\$1,552,871	\$1,472,372	\$1,732,689	\$1,671,275
Operating grants and contributions	128,957	139,874	-	-	128,957	139,874
Capital grant and contributions	-	291,947	-	-	-	291,947
	<u>308,775</u>	<u>630,724</u>	<u>1,552,871</u>	<u>1,472,372</u>	<u>1,861,646</u>	<u>2,103,096</u>
General revenue						
Property taxes	592,353	604,367	-	-	592,353	604,367
Other governmental sources	502,358	492,136			502,358	492,136
Other	212,214	294,367	20,463	15,341	232,677	307,761
	<u>1,615,700</u>	<u>2,021,594</u>	<u>1,573,334</u>	<u>1,487,713</u>	<u>3,189,034</u>	<u>3,507,360</u>
Total revenue						
Expenses						
General Government	594,818	544,231	-	-	594,818	541,231
Public Safety	339,942	405,139	-	-	339,942	405,139
Highways and Streets	215,682	240,679	-	-	215,682	240,679
Public works	145,865	170,556	-	-	145,865	170,556
Culture and recreation	219,218	233,692	-	-	219,218	233,692
Interest	28,504	30,183	-	-	28,504	30,183
Water & Sewer	-	-	1,603,156	1,505,753	1,603,156	1,505,753
	<u>1,544,029</u>	<u>1,621,480</u>	<u>1,603,156</u>	<u>1,505,753</u>	<u>3,147,185</u>	<u>3,127,233</u>
Total expenses						
Change in net assets	<u>71,671</u>	<u>400,114</u>	<u>(29,822)</u>	<u>(18,040)</u>	<u>41,849</u>	<u>382,074</u>
Net assets - beginning of year	2,516,235	2,587,906	8,243,490	8,213,668	10,759,725	10,801,574
Net assets - end of year	<u>\$2,587,906</u>	<u>\$2,988,020</u>	<u>\$8,213,668</u>	<u>\$8,195,628</u>	<u>\$10,801,574</u>	<u>\$11,183,648</u>

TOTAL CITY REVENUE FY 2005

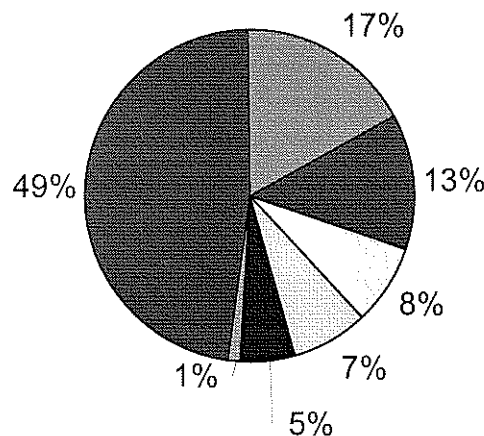


- Charges for services
- Operating grants and contributions
- Capital grant and contributions
- Property taxes
- Other governmental sources
- Other

The Operating grants and Contributions figure includes penal fines for the Library and Township fire contracts for the Fire Department.

The amounts in Other Governmental Sources includes State Revenue Sharing, Act 51 Gas Tax funds and contributions from the Downtown Development Authority (DDA).

TOTAL CITY EXPENSES FY 2005



- General Government
- Public Safety
- Highways and Streets
- Public works
- Culture and recreation
- Interest
- Water & Sewer

Governmental activities. During the year the City continued its emphasis in public safety by investing \$405,139 or 25% of governmental activities expenses. Culture and recreation, which includes library operations was \$170,556 or 11% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 64% of governmental activities expenses.

The Governmental activities represented above included Police Department and Fire Department operations, Department of Public Works, Library, Major Streets, and Administrative functions.

Business-type activities. Although the net assets decreased by \$18,040 this amount is less than the previous fiscal year decrease of \$29,822. These activities included Water and Sewer operations.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,095,246, a decrease of \$31,396 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$279,075 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 23 percent of total general fund expenditures. The City Council's annual target is 25 percent of total general fund expenditures.

The fund balance of the City's general fund decreased by \$57,035 during the current fiscal year.

The major street fund has a total fund balance of \$148,668, which increased by \$53,796 during the year.

The parks improvement fund decreased by \$42,290 due to the expenditures for Westerborg Park of approximately \$360,000 offset by state and local revenue received for the project of approximately \$300,000.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water fund at the end of the year amounted to \$708,969. The fund had a decrease in net assets for the year of \$18,040. Factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the final and amended budgets for expenditures amounted to 3.2% for the year. Most of the difference is attributed to decreases in expenditures.

During the year, general fund revenues were less than budgetary estimates and expenditures were also less. An actual decrease in fund balance resulted that exceeded the final amended budget amount by \$6,565. Effective budget management by Department Heads resulted in a variance of less than 1.5% between the amended budget and actual revenues and less than 3.5% for expenditures.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$11,130,482 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, motor pool equipment, motor vehicles, infrastructure and construction in progress, machinery and equipment. Significant capital assets acquired during the year consisted primarily the Westerborg Park improvements and City Hall renovations.

The total increase in the City's investment in capital assets for the 2005 fiscal year was 1.7% (a 23% increase for governmental activities and a 3% decrease for business-type activities).

City of Reed City Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Land	\$ 88,994	\$ 92,611	\$ 30,305	\$ 30,305	\$ 119,299	\$ 122,916
Land improvements	108,872	102,463	-	-	108,872	102,463
Buildings and improvements	1,250,269	1,291,930	3,679	9,555	1,253,948	1,301,467
Furniture and equipment	217,326	189,445	156,052	167,624	373,378	357,069
Motor vehicles	262,488	304,337	-	-	262,488	304,337
Infrastructure	67,694	470,369	-	-	67,694	470,369
Water System	-	-	496,576	460,194	496,576	460,194
Sewer System	-	-	8,237,903	7,974,173	8,237,903	7,974,173
Construction in progress	25,734	37,976	-	-	25,734	37,976
Total	<u>\$2,021,377</u>	<u>\$2,489,131</u>	<u>\$8,924,515</u>	<u>\$8,641,833</u>	<u>\$10,945,892</u>	<u>\$11,130,964</u>

Additional information on the City of Reed City capital assets can be found in Note 6 on pages 33-34 of this report.

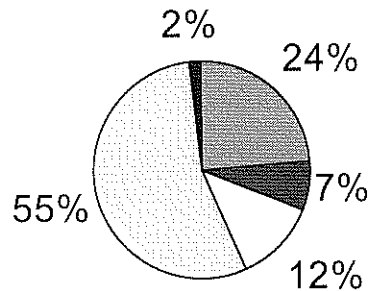
Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$2,290,406 as follows:

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
General obligation bonds	\$558,000	\$549,000	\$ -	\$ -	\$ 558,000	\$ 549,000
Special assessment with government commitment	185,000	165,000	-	-	185,000	165,000
Installment notes	13,900	6,950	298,945	273,982	312,845	280,932
Revenue bonds	-	-	1,365,000	1,255,000	1,365,000	1,255,000
Long-term compensated absences	36,676	40,474	-	-	36,676	40,474
Total	<u>\$793,576</u>	<u>\$761,424</u>	<u>\$1,663,945</u>	<u>\$1,528,982</u>	<u>\$2,457,521</u>	<u>\$2,290,406</u>

The City's total debt decreased by \$167,115 during the current fiscal year. The General Obligation Bonds were issued for the Fire Station. The Governmental activities Installment note was a five-year note for the purchase of a new front end loader. The Business-type activities Installment note was for the equipment at the North WWTP. The Special Assessment debt is the Maplewood Special Assessment District improvements.

Additional information on the City's long-term debt can be found in Note 8 on pages 36-37 of this report.

LONG TERM DEBT FY 2005



■ General Obligation Bonds

■ Special Assessment with Government Commitment

□ Installment Notes

□ Revenue Bonds

■ Long Term Compensated Absences

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- Increased employee wages and benefit cost.
- Increased health insurance cost with the prospect that costs can be reduced through a negotiated benefit change.
- Limited increased property tax revenue.
- Stable water and sewer revenues.
- No change in state revenue sharing payments.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 227 East Lincoln Avenue, Reed City, Michigan, 49677.

BASIC FINANCIAL STATEMENTS

CITY OF REED CITY

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Cash and cash equivalents	\$ 1,068,928	\$ 532,571	\$ 1,601,499	\$ 799,388
Accounts receivable	197,486	199,622	397,108	1,934
Special assessment receivable	112,571	-	112,571	-
Prepaid items and other assets	7,328	3,417	10,745	-
Inventory	-	4,725	4,725	-
Restricted assets				
Cash and cash equivalents	-	387,509	387,509	-
Bond issuance costs net of accumulated amortization	-	51,320	51,320	-
Capital assets				
Land	92,611	30,305	122,916	-
Construction in progress	37,976	-	37,976	-
Buildings, equipment and fixtures, net	2,358,544	8,611,528	10,970,072	-
Total assets	3,875,444	9,820,997	13,696,441	801,322
Liabilities				
Accounts payable	63,837	32,251	96,088	25,038
Accrued liabilities	62,163	63,849	126,012	5,098
Unearned revenue	-	287	287	-
Noncurrent liabilities:				
Due within one year	36,950	66,299	103,249	40,000
Due in more than one year	724,474	1,462,683	2,187,157	1,100,000
Total liabilities	887,424	1,625,369	2,512,793	1,170,136
Net Assets				
Invested in capital assets, net of related debt	1,768,181	7,112,851	8,881,032	-
Restricted for:				
Major Streets	148,668	-	148,668	-
Local Streets	44,785	-	44,785	-
Law enforcement training	1,611	-	1,611	-
Debt service	90,641	347,509	438,150	-
Nonexpendable perpetual trusts				
Cemetery-expendable portion	9,188	-	9,188	-
Cemetery - corpus	33,750	-	33,750	-
Unrestricted (deficit)	891,196	735,268	1,626,464	(368,814)
Total net assets (deficit)	\$ 2,988,020	\$ 8,195,628	\$ 11,183,648	\$ (368,814)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 541,231	\$ 181,358	\$ 952	\$ -	\$ (358,921)
Public safety	405,139	277	57,512	35,147	(312,203)
Highways and streets	240,679	-	-	-	(240,679)
Recreation and culture	233,692	4,379	81,410	256,800	108,897
Public works	170,556	12,889	-	-	(157,667)
Interest on long-term debt	30,183	-	-	-	(30,183)
Total governmental activities	<u>1,621,480</u>	<u>198,903</u>	<u>139,874</u>	<u>291,947</u>	<u>(990,756)</u>
Business-type activities:					
Water and sewer	<u>1,505,753</u>	<u>1,472,372</u>	<u>-</u>	<u>-</u>	<u>(33,381)</u>
Total primary government	<u>\$ 3,127,233</u>	<u>\$ 1,671,275</u>	<u>\$ 139,874</u>	<u>\$ 291,947</u>	<u>\$ (1,024,137)</u>
Component unit activities:					
Downtown Development Authority	<u>\$ 398,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (398,939)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

STATEMENT OF ACTIVITIES (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Changes in net assets				
Net (expense) revenue	\$ (990,756)	\$ (33,381)	\$ (1,024,137)	\$ (398,939)
General revenues:				
Property taxes	604,367	-	604,367	537,030
Grants and contributions not restricted to specific programs	-	-	-	-
State shared revenues	492,136	-	492,136	-
Local sources	141,775	-	141,775	-
(Loss) on sale of capital assets	-	(3,641)	(3,641)	-
Interest earnings	43,289	18,982	62,271	27,412
Other general revenues	109,303	-	109,303	-
 Total general revenues	 1,390,870	 15,341	 1,406,211	 564,442
 Change in net assets	 400,114	 (18,040)	 382,074	 165,503
Net assets (deficit), beginning of year	2,587,906	8,213,668	10,801,574	(534,317)
Net assets (deficit), end of year	\$ 2,988,020	\$ 8,195,628	\$ 11,183,648	\$ (368,814)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

<u>ASSETS</u>	GENERAL FUND	MAJOR STREETS	MAPLEWOOD SPECIAL ASSESSMENT	PARKS IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and cash equivalents	\$ 236,426	\$ 132,698	\$ -	\$ 5,096	\$ 607,256	\$ 981,476
Accounts receivable	36,236	-	-	-	5,442	41,678
Special assessments receivable	-	-	112,571	-	-	112,571
Prepaid expenditures	6,146	342	-	-	478	6,966
Due from other funds	-	9,056	-	-	-	9,056
Advance to other funds	3,813	-	-	-	22,285	26,098
Due from other governmental units	90,334	23,473	-	25,680	16,321	155,808
TOTAL ASSETS	\$ 372,955	\$ 165,569	\$ 112,571	\$ 30,776	\$ 651,782	\$ 1,333,653
 <u>LIABILITIES AND FUND BALANCES</u>						
LIABILITIES						
Accounts payable	\$ 30,207	\$ 13,432	\$ -	\$ 4,075	\$ 13,361	\$ 61,075
Accrued liabilities	41,388	3,469	-	-	3,153	48,010
Due to other funds	-	-	-	-	9,056	9,056
Advance from other funds	22,285	-	-	3,813	-	26,098
Deferred revenue	-	-	94,168	-	-	94,168
TOTAL LIABILITIES	93,880	16,901	94,168	7,888	25,570	238,407
FUND BALANCES						
Reserved for:						
Advance to other funds	3,813	-	-	-	22,285	26,098
Cemetery Perpetual Care	-	-	-	-	33,750	33,750
Debt Service	-	-	-	-	89,401	89,401
Unreserved						
Designated for subsequent year expenditures	26,751	4,400	-	-	57,060	88,211
Undesignated	248,511	144,268	18,403	22,888	-	434,070
Undesignated, reported in nonmajor						
Special Revenue Funds	-	-	-	-	410,568	410,568
Capital Project Funds	-	-	-	-	3,960	3,960
Permanent Funds	-	-	-	-	9,188	9,188
TOTAL FUND BALANCES	279,075	148,668	18,403	22,888	626,212	1,095,246
TOTAL LIABILITIES AND FUND BALANCES	\$ 372,955	\$ 165,569	\$ 112,571	\$ 30,776	\$ 651,782	\$ 1,333,653

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

***Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets***

JUNE 30, 2005

Fund balances - total governmental funds \$ 1,095,246

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets, net of accumulated depreciation	2,396,520
Add - land	92,611

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred revenue on special assessments receivable	94,168
--	--------

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	324,888
Deduct - Capital assets accounted for in the internal service fund, net of accumulated depreciation	(254,500)
Add - Note payable accounted for in the internal service fund	6,950

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable	(720,950)
Deduct - compensated absences	(40,474)
Deduct - accrued interest on long-term liabilities	<u>(6,439)</u>

Net assets of governmental activities	<u><u>\$ 2,988,020</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND	MAJOR STREETS	MAPLEWOOD SPECIAL ASSESSMENT	PARKS IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Taxes	\$ 535,391	\$ -	\$ -	\$ -	\$ 68,976	\$ 604,367
Licenses and permits	19,273	-	-	-	-	19,273
Intergovernmental revenue						
State	271,517	157,380	-	256,800	60,981	746,678
Local	91,350	-	-	43,425	42,147	176,922
Charges for services	109,874	-	-	-	-	109,874
Fines	1,883	-	-	-	-	1,883
Special assessments	-	-	23,653	-	-	23,653
Miscellaneous	182,120	70,125	7,879	454	106,285	366,863
TOTAL REVENUES	1,211,408	227,505	31,532	300,679	278,389	2,049,513
EXPENDITURES						
Current:						
Legislative	30,102	-	-	-	-	30,102
General government	277,162	-	-	-	446	277,608
Public safety	380,964	-	-	-	896	381,860
Public works	168,876	156,968	-	-	83,582	409,426
Culture and recreation	58,931	-	-	-	121,354	180,285
Other governmental functions	236,615	-	-	-	-	236,615
Debt Service:						
Principal	-	-	-	-	29,000	29,000
Interest	-	-	-	-	32,733	32,733
Capital outlay	84,091	-	-	365,894	53,295	503,280
TOTAL EXPENDITURES	1,236,741	156,968	-	365,894	321,306	2,080,909
REVENUES OVER (UNDER) EXPENDITURES	(25,333)	70,537	31,532	(65,215)	(42,917)	(31,396)
OTHER FINANCING SOURCES (USES)						
Transfers in	10,725	9,056	-	22,925	77,676	120,382
Transfers out	(42,427)	(25,797)	(32,377)	-	(19,781)	(120,382)
TOTAL OTHER FINANCING SOURCES (USES)	(31,702)	(16,741)	(32,377)	22,925	57,895	-
NET CHANGES IN FUND BALANCES	(57,035)	53,796	(845)	(42,290)	14,978	(31,396)
FUND BALANCES, BEGINNING OF YEAR	336,110	94,872	19,248	65,178	611,234	1,126,642
FUND BALANCES, END OF YEAR	\$ 279,075	\$ 148,668	\$ 18,403	\$ 22,888	\$ 626,212	\$ 1,095,246

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2005

Net changes in fund balances - total governmental funds	\$ (31,396)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	506,288
Deduct - depreciation expense	(77,776)

Gain realized on sale of capital assets	(6,219)
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Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements

Deduct - decrease in long term receivables	(23,653)
--	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

Add - principal payments on long-term liabilities	29,000
---	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct - decrease in accrued interest on bonds	(2,550)
Add - increase in the accrual for compensated absences	3,798

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income from governmental activities in internal service fund	5,112
Deduct - income already included in governmental activities	(2,490)

Change in net assets of governmental activities	<u>\$ 400,114</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 535,150	\$ 540,594	\$ 535,391	\$ (5,203)
Licenses and permits	19,300	19,300	19,273	(27)
Intergovernmental revenues:				
State	271,500	276,419	271,517	(4,902)
Local	-	95,033	91,350	(3,683)
Charges for services	99,425	108,615	109,874	1,259
Fines and forfeits	1,700	3,405	1,883	(1,522)
Miscellaneous	159,652	185,884	182,120	(3,764)
TOTAL REVENUES	1,086,727	1,229,250	1,211,408	(17,842)
EXPENDITURES				
Current				
Legislative	24,453	30,603	30,102	501
General government	255,392	284,465	277,162	7,303
Public safety	308,710	388,550	380,964	7,586
Public works	150,990	172,425	168,876	3,549
Culture and recreation	53,930	63,290	58,931	4,359
Other governmental functions	342,600	245,833	236,615	9,218
Capital outlay	22,575	91,957	84,091	7,866
TOTAL EXPENDITURES	1,158,650	1,277,123	1,236,741	40,382
REVENUES OVER (UNDER) EXPENDITURES	(71,923)	(47,873)	(25,333)	22,540
OTHER FINANCING SOURCES (USES)				
Transfers in	18,600	39,830	10,725	(29,105)
Transfers (out)	-	(42,427)	(42,427)	-
TOTAL OTHER FINANCING SOURCES (USES)	18,600	(2,597)	(31,702)	(29,105)
NET CHANGE IN FUND BALANCE	(53,323)	(50,470)	(57,035)	(6,565)
FUND BALANCE, BEGINNING OF YEAR	336,110	336,110	336,110	-
FUND BALANCE, END OF YEAR	\$ 282,787	\$ 285,640	\$ 279,075	\$ (6,565)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREETS FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenues:				
State	\$ 145,807	\$ 158,501	\$ 157,380	\$ (1,121)
Miscellaneous	1,600	34,800	70,125	35,325
TOTAL REVENUES	147,407	193,301	227,505	34,204
EXPENDITURES				
Highways and streets	140,361	186,605	156,968	29,637
REVENUES OVER (UNDER) EXPENDITURES	7,046	6,696	70,537	63,841
OTHER FINANCING SOURCES (USES)				
Transfers in	10,000	10,000	9,056	(944)
Transfers (out)	(25,797)	(25,797)	(25,797)	-
TOTAL OTHER FINANCING SOURCES (USES)	(15,797)	(15,797)	(16,741)	(944)
NET CHANGE IN FUND BALANCE	(8,751)	(9,101)	53,796	62,897
FUND BALANCE, BEGINNING OF YEAR	94,872	94,872	94,872	-
FUND BALANCE, END OF YEAR	\$ 86,121	\$ 85,771	\$ 148,668	\$ 62,897

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAPLEWOOD SPECIAL ASSESSMENT
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Special assessments	\$ 20,000	\$ 25,700	\$ 23,653	\$ (2,047)
Miscellaneous	9,300	9,300	7,879	(1,421)
TOTAL REVENUES	29,300	35,000	31,532	(3,468)
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(29,300)	(35,000)	(32,377)	2,623
NET CHANGE IN FUND BALANCE	-	-	(845)	(845)
FUND BALANCE, BEGINNING OF YEAR	19,248	19,248	19,248	-
FUND BALANCE, END OF YEAR	\$ 19,248	\$ 19,248	\$ 18,403	\$ (845)

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

*STATEMENT OF NET ASSETS
PROPRIETARY FUNDS*

JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES	GOVERNMENTAL ACTIVITIES
	ENTERPRISE FUND	INTERNAL SERVICE FUND
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 532,571	\$ 87,452
Accounts receivable	199,622	-
Inventory	4,725	-
Bond issuance costs net of accumulated amortization	51,320	-
Prepaid expenses	3,417	362
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	791,655	87,814
	<hr/>	<hr/>
RESTRICTED ASSETS		
Cash and cash equivalents	387,509	-
	<hr/>	<hr/>
CAPITAL ASSETS		
Land	30,305	-
Property plant & equipment	12,497,056	-
Machinery and equipment	-	689,821
	<hr/>	<hr/>
	12,527,361	689,821
	<hr/>	<hr/>
Less: Accumulated depreciation	(3,885,528)	(435,321)
	<hr/>	<hr/>
TOTAL CAPITAL ASSETS	8,641,833	254,500
	<hr/>	<hr/>
TOTAL ASSETS	9,820,997	342,314
	<hr/>	<hr/>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	32,251	2,762
Accrued liabilities	63,849	7,714
Deferred revenue	287	-
Current maturity of notes payable	26,299	6,950
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	122,686	17,426
	<hr/>	<hr/>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Current maturity of bonds payable	40,000	-
	<hr/>	<hr/>
NONCURRENT LIABILITIES		
Bonds and notes payable, net of current maturities	1,462,683	-
	<hr/>	<hr/>
TOTAL LIABILITIES	1,625,369	17,426
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	7,139,150	247,550
Restricted for debt service	347,509	-
Unrestricted		
Undesignated	708,969	77,338
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 8,195,628	\$ 324,888
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES	GOVERNMENTAL ACTIVITIES
	ENTERPRISE FUND	INTERNAL SERVICE FUND
OPERATING REVENUES		
Charges for services	\$ 1,400,462	\$ 161,185
Miscellaneous	71,910	2,490
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	1,472,372	163,675
	<hr/>	<hr/>
OPERATING EXPENSES		
Personnel services	434,933	51,630
Contractual services	158,784	18,297
Materials and supplies	115,526	26,850
Utilities	268,833	7,983
Repairs and maintenance	35,055	16,388
Lease and rental	18,946	-
Depreciation and amortization	336,652	36,976
Miscellaneous	62,120	-
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	1,430,849	158,124
	<hr/>	<hr/>
OPERATING INCOME (LOSS)	41,523	5,551
	<hr/>	<hr/>
NON OPERATING REVENUES (EXPENSES)		
(Loss) on sale of capital assets	(3,641)	-
Interest income	18,982	-
Interest expense	(74,904)	(439)
	<hr/>	<hr/>
TOTAL NON OPERATING REVENUES (EXPENSES)	(59,563)	(439)
	<hr/>	<hr/>
CHANGE IN NET ASSETS	(18,040)	5,112
	<hr/>	<hr/>
NET ASSETS, BEGINNING OF YEAR	8,213,668	319,776
	<hr/>	<hr/>
NET ASSETS, END OF YEAR	\$ 8,195,628	\$ 324,888
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES	GOVERNMENTAL ACTIVITIES
	ENTERPRISE FUND	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from interfund services provided	\$ -	\$ 163,675
Receipts from customers and users	1,518,302	-
Payments to suppliers	(715,437)	(72,089)
Payments to employees	(434,933)	(51,630)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>367,932</u>	<u>39,956</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(55,209)	(82,431)
Proceeds from sale of capital assets	568	-
Principal paid on bonds	(134,963)	(6,950)
Interest and fiscal charges paid	(74,904)	(439)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(264,508)</u>	<u>(89,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments	<u>18,982</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	122,406	(49,864)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>797,674</u>	<u>137,316</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 920,080</u>	<u>\$ 87,452</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ 41,523	\$ 5,551
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	336,652	36,976
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	45,861	-
Inventory	(1,010)	-
Prepaid expenses	(1,318)	(17)
Accounts payable	(45,506)	(136)
Accrued liabilities	(8,339)	(2,418)
Deferred revenue	69	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 367,932</u>	<u>\$ 39,956</u>
CASH AND CASH EQUIVALENTS ARE CAPTIONED ON THE STATEMENT OF NET ASSETS AS FOLLOWS:		
Cash and cash equivalents	\$ 532,571	\$ 87,452
Restricted cash and cash equivalents	<u>387,509</u>	<u>-</u>
	<u>\$ 920,080</u>	<u>\$ 87,452</u>

The accompanying notes are an integral part of these financial statements.

CITY OF REED CITY
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 15,592</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 137
Due to other governmental units	1,965
Deposits held for others	<u>13,490</u>
TOTAL LIABILITIES	<u>\$ 15,592</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reed City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. A separate section of the Basic Financial Statements provides detailed financial information on the discretely presented component unit.

Discretely Presented Component Unit

The component unit column in the basic financial statements include the financial data of the Downtown Development Authority. This unit is reported in a separate column and rows to emphasize that it is legally separate from the City.

The members of the governing board of the Authority are appointed by the City Council. The budgets of the Authority must be approved by the City Council, and the City has the ability to significantly influence its operations. Financial statements are not separately issued for the component unit.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Likewise, the *primary government* is reported separately from the *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for motor fuel tax revenue which is restricted for maintenance and construction of major streets.

The *Maplewood Special Assessment Fund* is used to account for the collection and disbursement of the Maplewood special assessment district.

The *Parks Improvement Capital Projects Fund* accounts for the revenue and expenditure associated with the Westerburg Park project.

CITY OF REED CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The City reports the following major proprietary fund:

The *Sewer and Water Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than perpetual trusts or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Funds* are used to account for the accumulation and disbursement of funds for capital projects.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Internal Service Fund* accounts for equipment and vehicle purchases, and repairs and maintenance provided to the City departments on a cost reimbursement basis.

The *Agency Funds* are used to account for assets held in an agency capacity on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government- wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF REED CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Budgets and Budgetary Accounting

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of May the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2005. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

Budgets and Budgetary Accounting

Budgets for expenditures are adopted on an activity level basis in the General Fund and by function in the Special Revenue funds. Thus, expenditures may not legally exceed the budgeted amounts by activity for the General Fund and by function for the Special Revenue funds.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Assets

Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Due to/from Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added in 2003 and forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	20-50
Office furniture and equipment	5-15
Vehicles	5-10
Public domain infrastructure	10-50
System infrastructure	40-50

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Special assessment (Maplewood Special Assessment Fund)	\$94,168
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CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accumulated vacation time of governmental funds is recorded on statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds have been evaluated and determined to be immaterial to the financial statements as a whole. Consequently, no portion of the liability is reported on the statements of net assets of the enterprise fund.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

2. DEFICIT NET ASSETS

At June 30, 2005, the City had deficit net assets of \$368,814 in the Downtown Development Authority Component Unit. Management plans to eliminate the deficit net assets through the recognition of revenues in subsequent years.

3. CASH EQUIVALENTS AND DEPOSITS

Cash equivalents and deposits consist of the following at June 30, 2005:

Cash equivalents	\$1,204,448
Certificates of deposit	<u>1,599,540</u>
Total deposits	<u>\$2,803,988</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$2,542,409 of the City's bank balance of \$2,842,409 was exposed to custodial credit risk because it was uninsured and uncollateralized.

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

The City does not hold any investments at June 30, 2005.

Statutory Authority

Act 217, PA 1982, authorizes the City to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

CITY OF REED CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due to Other Funds
Major Streets Fund	\$ 9,056	\$ -
Local Streets Fund	-	9,056
Advances		
General Fund	3,813	22,285
Emergency Contingency Fund	22,285	-
Parks Improvement	-	3,813
	<u>\$35,154</u>	<u>\$35,154</u>

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

5. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2005 are as follows:

	General Fund	Major Streets Fund	Parks Improvement	Other Governmental Funds	Total Transfers Out
General Fund	\$ -	\$ -	\$22,925	\$19,502	\$ 42,427
Major Streets Fund	-	-	-	25,797	25,797
Maplewood Special Assessment	-	-	-	32,377	32,377
Other Governmental Funds	10,725	9,056	-	-	19,781
Total transfers in	<u>\$10,725</u>	<u>\$9,056</u>	<u>\$22,925</u>	<u>\$77,676</u>	<u>\$120,382</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2005</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 88,994	\$ 5,617	\$ (2,000)	\$ 92,611
Construction in progress	25,734	37,976	(25,734)	37,976
Total capital assets, not being depreciated	<u>114,728</u>	<u>43,593</u>	<u>(27,734)</u>	<u>130,587</u>
Capital assets, being depreciated:				
Land improvements	142,884	-	-	142,884
Buildings and improvements	1,397,449	68,602	(16,854)	1,449,197
Furniture and equipment	370,365	13,548	-	383,913
Motor vehicles	847,491	82,431	-	929,922
Infrastructure	81,481	406,278	-	487,759
Total capital assets, being depreciated	<u>2,839,670</u>	<u>570,859</u>	<u>(16,854)</u>	<u>3,393,675</u>
Less accumulated depreciation for:				
Land improvements	34,011	6,410	-	40,421
Buildings and improvements	147,180	22,728	(12,641)	157,267
Furniture and equipment	153,039	41,429	-	194,468
Motor vehicles	585,003	40,582	-	625,585
Infrastructure	13,787	3,603	-	17,390
Total accumulated depreciation	<u>933,020</u>	<u>114,752</u>	<u>(12,641)</u>	<u>1,035,131</u>
Net capital assets, being depreciated	<u>1,906,650</u>	<u>456,107</u>	<u>(4,213)</u>	<u>2,358,544</u>
Net governmental activities capital assets	<u>\$2,021,378</u>	<u>\$499,700</u>	<u>\$(31,947)</u>	<u>\$2,489,131</u>

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2005</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 30,305	\$ -	\$ -	\$ 30,305
Capital assets, being depreciated:				
Buildings	28,564	7,449	-	36,013
Equipment	319,202	34,642	(5,260)	348,584
Water system	1,159,836	-	-	1,159,836
Sewer system	10,939,505	13,117	-	10,952,622
Total capital assets, being depreciated	12,447,107	55,208	(5,260)	12,497,055
Less accumulated depreciation for:				
Buildings	24,885	1,591	-	26,476
Equipment	163,150	18,862	1,052	180,960
Water system	663,260	36,382	-	699,642
Sewer system	2,701,602	276,847	-	2,978,449
Total accumulated depreciation	3,552,897	333,682	(1,052)	3,885,527
Net capital assets, being depreciated	8,894,210	(278,474)	(4,208)	8,611,528
Business-type activities capital assets, net	\$ 8,924,515	\$(278,474)	\$(4,208)	\$ 8,641,833

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 9,476
Public safety	23,279
Recreation and culture	43,341
Public works	1,680
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	36,976
Total depreciation expense – governmental activities	<u>\$114,752</u>

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

7. PENSION PLAN

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year ranged from 18.37 to 27.74 percent. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2005, the City's annual pension cost of \$193,417 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial entry into the plan using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$183,000	100%	\$ -
2004	194,722	100%	-
2005	193,417	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2002	\$2,101,324	\$3,075,864	\$ 974,540	68%	\$773,095	126%
12/31/2003	2,321,349	3,538,040	1,216,691	66%	903,856	135%
12/31/2004	2,493,140	3,714,628	1,221,488	67%	906,426	135%

CITY OF REED CITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

8. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Governmental activities					
Internal Service Fund					
Equipment installment note due in annual installments of \$6,950 through October 2005; interest at 4.95%.	\$ 13,900	\$ -	\$ (6,950)	\$ 6,950	\$ 6,950
Governmental Funds					
\$225,000 Special Assessment Bonds of 2002 due in annual installments of \$20,000 to \$25,000 through September 2011; average interest at 3.994%.	185,000	-	(20,000)	165,000	20,000
\$575,000 Fire Station General Obligation Bonds of 2002 due in annual installments of \$9,000 to \$37,000 through May 2032; interest at 4.625%.	558,000	-	(9,000)	549,000	10,000
Long-term compensated absences.	36,676	3,798	-	40,474	-
Total governmental activities	<u>\$793,576</u>	<u>\$3,798</u>	<u>\$(39,500)</u>	<u>\$761,424</u>	<u>\$36,950</u>
Business-type activities					
Enterprise Fund					
\$1,105,000 Water Supply/Wastewater System Revenue Bonds of 1998 due in annual installments of \$40,000 to \$85,000 through November 2019; interest at rates varying from 4.3% to 5.2%.	\$ 930,000	\$ -	\$ (40,000)	\$ 890,000	\$40,000
\$435,000 Water Supply and Wastewater System Revenue Refunding Bonds of 2004 due in annual installments of \$65,000 to \$80,000 through July 2010; interest at rates varying from 1.87% to 3.84%.	435,000	-	(70,000)	365,000	-
Equipment installment note due in semi-annual installments of approximately \$20,200 including interest through August 2013; interest at 5.28%.	298,945	-	(24,963)	273,982	26,299
Total business-type activities	<u>\$1,663,945</u>	<u>\$ -</u>	<u>\$(134,963)</u>	<u>\$1,528,982</u>	<u>\$66,299</u>
Component unit					
\$1,300,000 Downtown Development Revenue Bonds of 1998 due in annual installments of \$25,000 to \$250,000 through 2017; interest rates varying from 9.25% to 5.75%.	\$1,170,000	\$ -	\$ (30,000)	\$1,140,000	\$40,000

For the governmental activities, long-term compensated absences are generally liquidated by the general fund.

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2005 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 36,950	\$ 30,851	\$ 66,299	\$ 57,609	\$ 40,000	\$ 64,850
2007	30,000	29,874	137,705	65,326	40,000	62,750
2008	36,000	28,654	144,188	59,992	70,000	60,650
2009	37,000	27,227	150,749	54,106	75,000	56,925
2010	37,000	25,713	157,394	47,660	75,000	52,613
2011-2015	120,000	109,320	497,647	151,529	475,000	190,901
2016-2020	90,000	90,188	375,000	51,350	365,000	35,363
2021-2025	115,000	67,063	-	-	-	-
2026-2030	148,000	37,648	-	-	-	-
2031-2032	71,000	4,995	-	-	-	-
Total	\$720,950	\$451,533	\$1,528,982	\$487,572	\$1,140,000	\$524,052

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City carries commercial health, medical, and optical insurance. Statement No. 10 of the Governmental Accounting Standards Board requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. CONCENTRATIONS

The City has a significant economic dependence on a local corporation that is a major employer, taxpayer, and user of water and sewer services. The following is the percentage of taxes and utilities paid by the corporation:

	Amount	Percent of Total
Property taxes	\$300,971	36%
Water and sewer billing	935,126	65%
Water and sewer accounts receivable	102,040	51%

11. CONTINGENT LIABILITY

Wastewater Treatment Plant

The City owns a parcel of land that is used for its wastewater treatment plant. The parcel was previously owned by Koppers Company which operated a creosote plant treating poles and railroad ties. The Department of Natural Resources has notified Koppers and the City that a previous clean-up of the site is not sufficient and a new hydro geological study must be completed. The Department of Natural Resources claims that the City may be a possible responsible party because it presently owns the property and must be involved in the study and remedial action. Creosote leaking into a river is being purged and treated in the

CITY OF REED CITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

City's wastewater treatment plant. Total costs of the clean-up could be substantial. The City of Reed City and Beazer East, Inc. (the successor to Koppers) have entered into an agreement regarding certain cost sharing which requires, among other things, that the City is to treat water from the wells. There has not been a determination of responsible parties, the cost of the project, or whether the costs will be covered by insurance. Based on these factors, no provision for the contingency is included in the financial statements.

The City has also been notified by the Department of Environmental Quality of certain violations at its wastewater treatment plant. The potential cost to the City as a result of the violations is unknown.

Landfill

From September 17, 1968 until March 8, 1985, the City operated a landfill, which is now privately owned and operated. The City, Richmond Sanitary Landfill, Inc. and the Department of Natural Resources entered into a Consent Agreement which outlines certain obligations of the parties regarding the capping of the landfill. The majority of the City's requirements under the Consent Agreement have been completed. It is impossible to determine the financial obligation that the City of Reed City may ultimately have regarding the landfill until further studies and tests are done. If there are contamination problems at the landfill and the City is held liable, the cost to the City could be significant.

Downtown Development Authority

The Downtown Development Authority has entered into an agreement to pay \$100,000 per year for ten years beginning in the year ended June 30, 2005, for their portion of a force main project. The payment is contingent on a business in the City maintaining their current production capacity.

* * * * *

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

CITY OF REED CITY
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

<u>ASSETS</u>	SPECIAL REVENUE				
	LOCAL STREETS	LAW ENFORCEMENT TRAINING	LIBRARY	FIRE EQUIPMENT REPLACEMENT	EMERGENCY CONTINGENCY
Cash and cash equivalents	\$ 40,716	\$ 1,611	\$ 128,057	\$ 46,565	\$ 232,855
Accounts receivable, net of allowance	-	-	79	-	-
Prepaid expenditures	257	-	221	-	-
Advance to other funds	-	-	-	-	22,285
Due from other governmental units	16,321	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 57,294</u>	<u>\$ 1,611</u>	<u>\$ 128,357</u>	<u>\$ 46,565</u>	<u>\$ 255,140</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts payable	\$ 1,317	\$ -	\$ 512	\$ -	\$ -
Accrued liabilities	2,136	-	1,017	-	-
Due to other funds	9,056	-	-	-	-
<u>TOTAL LIABILITIES</u>	<u>12,509</u>	<u>-</u>	<u>1,529</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Reserved for					
Advance to other funds	-	-	-	-	22,285
Perpetual care	-	-	-	-	-
Unreserved:					
Designated for subsequent year expenditures	16,196	-	19,124	19,000	-
Undesignated	28,589	1,611	107,704	27,565	232,855
<u>TOTAL FUND BALANCES</u>	<u>44,785</u>	<u>1,611</u>	<u>126,828</u>	<u>46,565</u>	<u>255,140</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 57,294</u>	<u>\$ 1,611</u>	<u>\$ 128,357</u>	<u>\$ 46,565</u>	<u>\$ 255,140</u>

PARK COMMISSION	POLICE RESERVE OFFICER	CAPITAL PROJECTS		POLICE BUILDING	DEBT SERVICE		FIRE STATION	PERMANENT		TOTAL
		EQUIPMENT AND REPLACEMENT			SPECIAL ASSESSMENT BOND			CEMETERY PERPETUAL CARE		
\$ 15,467	\$ 56	\$ 3,960		\$ 4,606	\$ 56,414		\$ 34,011	\$ 42,938		\$ 607,256
-	-	-		5,147	-		216	-		5,442
-	-	-		-	-		-	-		478
-	-	-		-	-		-	-		22,285
-	-	-		-	-		-	-		16,321
\$ 15,467	\$ 56	\$ 3,960		\$ 9,753	\$ 56,414		\$ 34,227	\$ 42,938		\$ 651,782

\$ 1,779	\$ -	\$ -		\$ 9,753	\$ -		\$ -	\$ -		\$ 13,361
-	-	-		-	-		-	-		3,153
-	-	-		-	-		-	-		9,056
1,779	-	-		9,753	-		-	-		25,570
-	-	-		-	-		-	-		22,285
-	-	-		-	-		-	33,750		33,750
1,500	-	-		-	1,240		-	-		57,060
12,188	56	3,960		-	55,174		34,227	9,188		513,117
13,688	56	3,960		-	56,414		34,227	42,938		626,212
\$ 15,467	\$ 56	\$ 3,960		\$ 9,753	\$ 56,414		\$ 34,227	\$ 42,938		\$ 651,782

CITY OF REED CITY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE				
	LOCAL STREETS	LAW ENFORCEMENT TRAINING	LIBRARY	FIRE EQUIPMENT REPLACEMENT	EMERGENCY CONTINGENCY
REVENUES					
Property taxes	\$ -	\$ -	\$ 31,045	\$ -	\$ -
Intergovernmental:					
State	60,981	-	-	-	-
Local	-	-	-	10,000	-
Miscellaneous	1,182	944	82,406	718	8,187
TOTAL REVENUES	62,163	944	113,451	10,718	8,187
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Highways and streets	83,582	-	-	-	-
Culture and recreation	-	-	105,304	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	25,379	-	-
TOTAL EXPENDITURES	83,582	-	130,683	-	-
REVENUES OVER (UNDER) EXPENDITURES	(21,419)	944	(17,232)	10,718	8,187
OTHER FINANCING SOURCES (USES)					
Transfers in	25,797	-	-	19,502	-
Transfers out	(9,056)	(930)	-	(1,795)	(8,000)
TOTAL OTHER FINANCING SOURCES (USES)	16,741	(930)	-	17,707	(8,000)
NET CHANGE IN FUND BALANCES	(4,678)	14	(17,232)	28,425	187
FUND BALANCES, BEGINNING OF YEAR	49,463	1,597	144,060	18,140	254,953
FUND BALANCES, END OF YEAR	\$ 44,785	\$ 1,611	\$ 126,828	\$ 46,565	\$ 255,140

PARK COMMISSION	POLICE RESERVE OFFICER	CAPITAL PROJECTS		POLICE BUILDING	DEBT SERVICE		PERMANENT CEMETERY PERPETUAL CARE	TOTAL
		EQUIPMENT AND REPLACEMENT			SPECIAL ASSESSMENT BOND	FIRE STATION		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	37,931	\$ -	68,976
-	-	-	-	-	-	-	-	60,981
7,000	-	-	25,147	-	-	-	-	42,147
9,120	952	142	330	55	729	1,520		106,285
16,120	952	142	25,477	55	38,660	1,520		278,389
-	-	-	-	-	-	-	446	446
-	896	-	-	-	-	-	-	896
-	-	-	-	-	-	-	-	83,582
16,050	-	-	-	-	-	-	-	121,354
-	-	-	-	20,000	9,000	-	-	29,000
-	-	-	-	6,925	25,808	-	-	32,733
-	-	2,439	25,477	-	-	-	-	53,295
16,050	896	2,439	25,477	26,925	34,808	446		321,306
70	56	(2,297)	-	(26,870)	3,852	1,074		(42,917)
-	-	-	-	32,377	-	-	-	77,676
-	-	-	-	-	-	-	-	(19,781)
-	-	-	-	32,377	-	-	-	57,895
70	56	(2,297)	-	5,507	3,852	1,074		14,978
13,618	-	6,257	-	50,907	30,375	41,864		611,234
\$ 13,688	\$ 56	\$ 3,960	\$ -	\$ 56,414	\$ 34,227	\$ 42,938	\$	626,212

CITY OF REED CITY
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenues:				
State	\$ 60,000	\$ 61,400	\$ 60,981	\$ (419)
Miscellaneous	400	1,150	1,182	32
TOTAL REVENUES	60,400	62,550	62,163	(387)
EXPENDITURES				
Highways and streets	86,197	88,347	83,582	4,765
REVENUES OVER (UNDER) EXPENDITURES	(25,797)	(25,797)	(21,419)	4,378
OTHER FINANCING SOURCES				
Transfers in	25,797	25,797	25,797	-
Transfers (out)	(10,000)	(10,000)	(9,056)	944
TOTAL OTHER FINANCING SOURCES (USES)	15,797	15,797	16,741	944
NET CHANGE IN FUND BALANCE	(10,000)	(10,000)	(4,678)	5,322
FUND BALANCE, BEGINNING OF YEAR	49,463	49,463	49,463	-
FUND BALANCE, END OF YEAR	\$ 39,463	\$ 39,463	\$ 44,785	\$ 5,322

CITY OF REED CITY

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LIBRARY FUND**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Property taxes	\$ 30,260	\$ 30,260	\$ 31,045	\$ 785
Miscellaneous	79,350	79,350	82,406	3,056
TOTAL REVENUES	109,610	109,610	113,451	3,841
EXPENDITURES				
Culture and recreation	124,800	124,800	105,304	19,496
Capital outlay	27,000	27,000	25,379	1,621
TOTAL EXPENDITURES	151,800	151,800	130,683	21,117
NET CHANGE IN FUND BALANCE	(42,190)	(42,190)	(17,232)	24,958
FUND BALANCE, BEGINNING OF YEAR	144,060	144,060	144,060	-
FUND BALANCE, END OF YEAR	\$ 101,870	\$ 101,870	\$ 126,828	\$ 24,958

CITY OF REED CITY

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LAW ENFORCEMENT TRAINING**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Miscellaneous	\$ 100	\$ 100	\$ 944	\$ 844
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(2,000)	(2,000)	(930)	1,070
NET CHANGE IN FUND BALANCE	(1,900)	(1,900)	14	1,914
FUND BALANCE, BEGINNING OF YEAR	1,597	1,597	1,597	-
FUND BALANCE (DEFICIT), END OF YEAR	\$ (303)	\$ (303)	\$ 1,611	\$ 1,914

CITY OF REED CITY

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FIRE EQUIPMENT REPLACEMENT**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental				
Local	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Miscellaneous	250	250	718	468
TOTAL REVENUES	10,250	10,250	10,718	468
EXPENDITURES				
Capital outlay	-	19,502	-	19,502
TOTAL EXPENDITURES	-	19,502	-	19,502
NET CHANGE IN FUND BALANCES	10,250	(9,252)	10,718	19,970
OTHER FINANCING SOURCES (USES)				
Transfers in	-	19,502	19,502	-
Transfers (out)	(10,500)	(10,500)	(1,795)	8,705
TOTAL OTHER FINANCING SOURCES (USES)	(10,500)	9,002	17,707	8,705
NET CHANGE IN FUND BALANCE	(250)	(250)	28,425	28,675
FUND BALANCE, BEGINNING OF YEAR	18,140	18,140	18,140	-
FUND BALANCE, END OF YEAR	\$ 17,890	\$ 17,890	\$ 46,565	\$ 28,675

CITY OF REED CITY

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EMERGENCY CONTINGENCY**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Miscellaneous	\$ 5,000	\$ 8,000	\$ 8,187	\$ 187
EXPENDITURES				
General government	-	-	-	-
REVENUES OVER (UNDER) EXPENDITURES	5,000	8,000	8,187	187
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(5,000)	(8,000)	(8,000)	-
NET CHANGE IN FUND BALANCE	-	-	187	187
FUND BALANCE, BEGINNING OF YEAR	254,953	254,953	254,953	-
FUND BALANCE, END OF YEAR	\$ 254,953	\$ 254,953	\$ 255,140	\$ 187

CITY OF REED CITY

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
PARK COMMISSION**

FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental revenues:				
Local	\$ 7,000	\$ 7,000	\$ 7,000	\$ -
Miscellaneous	11,000	11,000	9,120	(1,880)
TOTAL REVENUES	18,000	18,000	16,120	(1,880)
EXPENDITURES				
Culture and recreation	18,000	18,000	16,050	1,950
REVENUES OVER (UNDER) EXPENDITURES	-	-	70	70
FUND BALANCE, BEGINNING OF YEAR	13,618	13,618	13,618	-
FUND BALANCE, END OF YEAR	\$ 13,618	\$ 13,618	\$ 13,688	\$ 70

CITY OF REED CITY
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
POLICE RESERVE OFFICER FUND
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
Miscellaneous	\$ -	\$ 900	\$ 952	\$ 52
EXPENDITURES				
Public safety	-	900	896	4
NET CHANGE IN FUND BALANCE	-	-	56	56
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 56	\$ 56

FIDUCIARY FUNDS

CITY OF REED CITY
FIDUCIARY FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2005

<u>ASSETS</u>	TAX COLLECTION	PAYROLL	RAILS TO TRAILS	REED CITY HOUSING COMMISSION	OSCEOLA FOUNDATION	TOTALS
Cash and cash equivalents	\$ 1,122	\$ 864	\$ 3,331	\$ -	\$ 10,275	\$ 15,592
 <u>LIABILITIES</u>						
Accounts payable	\$ 21	\$ -	\$ -	\$ -	\$ 116	\$ 137
Due to other governmental units	1,101	864	-	-	-	1,965
Deposits held for others	-	-	3,331	-	10,159	13,490
<u>TOTAL LIABILITIES</u>	\$ 1,122	\$ 864	\$ 3,331	\$ -	\$ 10,275	\$ 15,592

COMPONENT UNIT

CITY OF REED CITY
BALANCE SHEET/STATEMENT OF NET ASSETS
DOWNTOWN DEVELOPMENT AUTHORITY

JUNE 30, 2005

<u>ASSETS</u>	GENERAL OPERATING FUND	DEBT SERVICE	CAPITAL PROJECTS	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS					
Cash and cash equivalents	\$ 667,421	\$ 131,967	\$ -	\$ -	\$ 799,388
Accounts receivable	1,934	-	-	-	1,934
Due from other funds	-	-	24,738	(24,738)	-
<u>TOTAL ASSETS</u>	<u>\$ 669,355</u>	<u>\$ 131,967</u>	<u>\$ 24,738</u>	<u>(24,738)</u>	<u>801,322</u>
<u>LIABILITIES AND FUND BALANCE/NET ASSETS</u>					
LIABILITIES					
Accounts payable	\$ -	\$ 300	\$ 24,738	\$ -	\$ 25,038
Due to other funds	24,738	-	-	(24,738)	-
Accrued interest	-	-	-	5,098	5,098
Bond payable	-	-	-	1,140,000	1,140,000
	24,738	300	24,738	1,120,360	1,170,136
FUND BALANCE					
Undesignated	644,617	131,667	-	(776,284)	-
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 669,355</u>	<u>\$ 131,967</u>	<u>\$ 24,738</u>		
NET ASSETS (DEFICIT)					
Unrestricted				\$ (344,076)	\$ (368,814)

CITY OF REED CITY

*STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/NET ASSETS
DOWNTOWN DEVELOPMENT AUTHORITY*

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL OPERATING FUND	DEBT SERVICE	CAPITAL PROJECTS	ADJUSTMENTS	STATEMENT OF NET ASSETS
REVENUES					
Taxes	\$ 537,030	\$ -	\$ -	\$ -	\$ 537,030
Miscellaneous	25,113	2,299	-	-	27,412
TOTAL REVENUES	562,143	2,299	-	-	564,442
EXPENDITURES					
Current					
General government	-	-	187,658	-	187,658
Debt service					
Principal retirement	-	30,000	-	(30,000)	-
Interest and fiscal charges	-	66,725	-	(347)	66,378
Capital outlay	-	-	144,903	-	144,903
TOTAL EXPENDITURES	-	96,725	332,561	(30,347)	398,939
REVENUES OVER (UNDER) EXPENDITURES	562,143	(94,426)	(332,561)	30,347	165,503
OTHER FINANCING SOURCES					
Transfers in	-	94,973	332,561	-	427,534
Transfers (out)	(427,534)	-	-	-	(427,534)
TOTAL OTHER FINANCING SOURCES (USES)	(427,534)	94,973	332,561	-	-
NET CHANGE IN FUND BALANCES	134,609	547	-	(135,156)	
CHANGE IN NET ASSETS				165,503	165,503
FUND BALANCES/NET ASSETS (DEFICIT), BEGINNING OF YEAR	510,008	131,120	-	(1,175,445)	(534,317)
FUND BALANCES/NET ASSETS (DEFICIT), END OF YEAR	\$ 644,617	\$ 131,667	\$ -	\$ (1,145,098)	\$ (368,814)

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 5, 2005

Honorable Mayor and
Members of the City Council
City of Reed City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Reed City, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Reed City, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.